

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

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AMEMBASSY BRUSSELS

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E.O. 11652: N/A

TAGS: ELAB, ECON, EFIN, UK

SUBJECT: WILSON ON BRITAIN: BLEAK IN THE SHORT TERM BUT
ROSIER IN THE FUTURE

REF: LONDON 17108

SUMMARY - PRIME MINISTER HAROLD WILSON, SPEAKING AT THE
TRADITIONAL LORD MAYOR'S BANQUET IN LONDON'S MAGNIFICENT
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GUILDHALL, CAREFULLY BALANCED GRIM WARNINGS ABOUT REDUCED

LIVING STANDARDS FOR THE BRITISH PEOPLE DURING THE MONTHS AHEAD WITH NOTES OF OPTIMISM ABOUT THE FUTURE OF THE ECONOMY LACED, AS IT WERE, WITH NORTH SEA OIL. HE ALSO EXPRESSED SATISFACTION OVER THE READINESS OF BOTH SIDES OF INDUSTRY TO WORK WITH THE GOVERNMENT ON A NEW INDUSTRIAL STRATEGY, AND AT THE PROGRESS THUS FAR OF SIX POUND WAGE RESTRAINT POLICY, AND HE EVEN HAD KIND WORDS TO SAY ABOUT THE FINANCIAL INSTITUTIONS OF THE CITY. OFF-CAMERA, AND PERHAPS OUT OF FOCUS FOR THE MOMENT, THERE WERE SOME VOICES, SUCH AS THAT OF HUGH SCANLON, HEAD OF BRITAIN'S SECOND LARGEST UNION, WHICH PROCLAIMED, IN CASSANDRA-LIKE FASHION, THAT THE POLICY OF THE GOVERNMENT WAS ROOTED IN ERROR AND BOUND TO FAIL. END SUMMARY.

1. THE PRIME MINISTER, IN DELINEATING THE PROBLEM FOR BRITAIN, DECLARED: "COMING HARD ON THE HEELS OF THE OIL CRISIS, AND RECENT VIOLENT FLUCTUATIONS IN COMMODITIES, HAS BEEN THE MOST SERIOUS WORLD INDUSTRIAL AND TRADE RECESSION SINCE THE 1930'S" WHICH FEW NATIONS HAVE BEEN ABLE TO ESCAPE. BRITAIN, WHICH EXPORTS MORE THAN A QUARTER OF ITS PRODUCTION OF GOODS AND SERVICES HE SAID, "IS PECULIARLY VULNERABLE TO THE DECLINE OF WORLD TRADE." FOR BRITAIN IT THEREFORE MEANS, HE PROCLAIMED: "THERE CAN BE NO LET UP" IN ITS BATTLE AGAINST INFLATION, IN KEEPING UP PROGRESS IN RESTRAINING WAGES, BUT GRIMLY ADDED "SOME VERY DIFFICULT, INDEED BLEAK, MONTHS LIE AHEAD, WHEN REAL LIVING STANDARDS WILL ASSUREDLY FALL."

2. HE WENT ON TO SAY THAT WHEN WORLD ACTIVITY REVIVED, "AND THERE ARE SIGNS THIS IS BEGINNING TO HAPPEN -- WE ARE NOT PRECLUDED BY UNCOMPETITIVE COSTS AND PRICES FROM PUTTING FORTH OUR FULL EFFORT IN EXPORT MARKETS," OR BY "INADEQUATE CAPACITY IN TERMS OF INVESTMENT IN PLANT AND MACHINERY..." GIVEN THE CONTINUING NATIONAL DETERMINATION, THE PRIME MINISTER SAID THERE WAS REASON TO BE HOPEFUL THAT BRITAIN WOULD BENEFIT FROM THE UPTURN. POINTING TO THE RECENT RISE IN BRITAIN'S SHARE OF WORLD TRADE, HE NOTED THAT THE COUNTRY HAD SHOWN "REMARKABLE INCREASE" IN TRADE WITH NEW MIDDLE EASTERN MARKETS, AND EXPORTS HAD CONTRIBUTED IN A MAJOR WAY TO REDUCING THE CURRENT ACCOUNT LIMITED OFFICIAL USE

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DEFICIT TO A RATE A LITTLE MORE THAN HALF THAT OF 1974.

3. THE PRIME MINISTER NOTED THE NEW SPIRIT EMANATING FROM THE MEETING AT CHEQUERS (BETWEEN LABOR AND INDUSTRY AND THE GOVERNMENT) TOWARDS A "FUNDAMENTALLY NEW APPROACH" TO INDUSTRIAL STRATEGY, INVOLVING A JOINT EFFORT TO IMPROVE PRODUCTIVITY, REFORM MANPOWER POLICIES, DEAL WITH OVERMANNING AND GIVE PRIORITY TO INDUSTRIAL TRAINING

AND RETRAINING. THIS WOULD BE DONE, HE PROMISED, WITH THE FULL CONTRIBUTION BY GOVERNMENT THROUGH FINANCIAL ASSISTANCE, AND UNDER A POLICY WHICH WOULD "ENSURE THAT INDUSTRY, PUBLIC AND PRIVATE, IS ABLE TO EARN SUFFICIENT PROFITS TO PERMIT AND ENCOURAGE ENTERPRISES TO EXPAND."

4. MR. WILSON EMPHASIZED THAT THE COUNTRY HAD TOO LONG BEEN OPERATING ON "TOO SMALL AN INDUSTRIAL AND EXPORT BASE CARRYING TOO LARGE LOAD OF DEMAND, HOWEVER ESSENTIAL, ON RESOURCES," AN OVERLOAD IN BOTH THE PUBLIC SECTOR (AN OBLIQUE REFERENCE TO WILSON'S RECOGNITION OF THE NEED TO REDUCE PUBLIC SERVICES) AND THE PRIVATE SECTOR, INCLUDING

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PROPERTY. AT THE SAME TIME, MR. WILSON PRAISED THE CITY FOR THOSE PRIVATE SECTOR ACTIVITIES "WHICH HAVE LED TO PRODIGIOUS ACHIEVEMENTS IN INCREASING INVISIBLE EARNINGS" REACHING THIS YEAR, HE SAID, ABOUT 115 MILLION POUNDS A MONTH.

5. THE PRIME MINISTER ALSO TURNED TO AREAS OF INTERNATIONAL LIMITED OFFICIAL USE

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TIONAL ACHIEVEMENT. HE PRAISED THE HELSINKI CONFERENCE AS AN ASSERTION OF A "DETERMINATION TO LIVE AND LET LIVE." HE REFERRED TO THE DECISIVE ACT OF THE BRITISH PEOPLE IN BALLOTING FOR CONTINUED MEMBERSHIP IN THE EUROPEAN COMMUNITY THUS "ENDING THE ARGUMENT", AND THEY NOW "ARE WORKING TO MAKE OUR MEMBERSHIP A SUCCESS FOR BRITAIN, FOR EUROPE, FOR THE COMMONWEALTH, FOR THE WORLD." HE DESCRIBED THE SUMMIT CONFERENCE OPENING NEXT WEEKEND AS ONE "WITHOUT PRECEDENT IN ECONOMIC HISTORY." AND WHILE THERE WERE "DANGEROUSLY FRAUGHT" POLITICAL SITUATIONS IN THE MIDDLE EAST, CYPRUS, PORTUGAL, SPAIN AND SOUTHERN AFRICA, THE PRIME MINISTER DECLARED THAT RELATIONS WITH THE U.S., WITH THE SOVIET UNION, WITH THE EUROPEAN COMMUNITIES AND WITH THE COMMONWEALTH WERE STRONGER THAN EVER.

6. AT THE SAME TIME, BRITAIN HAD TO RECOGNIZE THAT IT WAS "NO LONGER THE WORLD'S RICHEST AND MOST POWERFUL TRADING NATION" NOR IS IT ANY LONGER "RESPONSIBLE FOR RULE OF HALF THE WORLD." BRITAIN, HE REITERATED HAD TO "ASSERT OUR INNATE INDUSTRIAL INVENTIVENESS AND ABILITY TO PAY OFF OUR BORROWING AND INCREASE OUR ECONOMIC STRENGTH." THIS STRENGTH, HE ADDED, WILL "UNDOUBTEDLY BE FORTIFIED, REVOLUTIONIZED, WHEN THE FLOW OF NORTH SEA OIL INTO THE REFINERIES WHICH STARTED AT ABERDEEN LAST WEEK, BECOMES A TORRENT."

7. COMMENT: IT WAS A GOOD PEP TALK FOR THE NATION, PROPERLY BALANCED BETWEEN THE CARROT AND THE STICK, WITH THE ADDED ASSURANCE FOR THOSE OF LITTLE HEART, THAT THERE WAS INDEED A POT OF BRITISH OIL AT THE END OF THE RAINBOW. BUT, ALAS, THERE ARE SKEPTICS. HUGH SCANLON, LEADER OF BRITAIN'S SECOND LARGEST UNION, ONE OF THOSE ON WHOM THE PRIME MINISTER WILL ULTIMATELY DEPEND, IF NOT FOR SUPPORT THEN FOR ACQUIESCENCE, IS ONE OF THEM. DURING A CONVERSA-

TION WITH THE AMBASSADOR YESTERDAY, SCANLON FLATLY PRE-
DICTED THAT BRITISH ANTI-INFLATION POLICY WILL FAIL AND
THAT AS UNEMPLOYMENT MOUNTS THERE WILL BE A "BACKLASH"
AGAINST THE LEADERSHIP OF THE TUC "ESTABLISHMENT" (JONES,
BASNETT, MURRAY, ALLEN AND OTHERS) WHICH SUPPORTS THE
GOVERNMENT, WHICH IN TURN WILL FORCE IT TO RECONSIDER ITS
POSITION. SCANLON MAINTAINS THAT THE "REDUCTION IN LIV-
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ING STANDARDS DESCRIBED BY THE PRIME MINISTER CAN ONLY
LEAD TO DEEPENING UNEMPLOYMENT. SCANLON SCOFFS AT THE
CHEQUERS SUMMIT AS DEALING WITH "PIE TOMORROW" GENERALI-
ZATIONS WITHOUT A CONCRETE PLAN FOR TODAY. SCANLON, OF
COURSE, IS NOT ALONE IN HIS VIEWS WITHIN THE TRADE UNION
MOVEMENT. DISSENTERS ALSO INCLUDE THOSE LIKE THE TRIBUNE
GROUP WITHIN THE LABOR PARTY WHO BELIEVE THAT THE WILSON
GOVERNMENT WILL FAIL. THE NEXT SEVERAL MONTHS WILL IN-
DEED BE A BLEAK AND GRIM PERIOD -- ONE WHICH WILL HELP TO
DETERMINE WHO IS RIGHT AND WHETHER HAROLD WILSON'S OPTI-
MISTIC VIEW OF BRITAIN'S FUTURE IS JUSTIFIED.

RICHARDSON

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